



DEC 20 2011

Ms. Edna I. McCutcheon, CEO
Torrance State Hospital
State Route 1014, PO Box 111
Torrance, Pennsylvania 15779

Dear Ms. McCutcheon:

Enclosed for your review is the final audit report of TSH procurement activity recently completed by this office.

Your Agency's response has been incorporated into the final report and labeled Appendix A.

The final report will be forwarded to the Department's Office of Mental Health and Substance Abuse Services (OMHSAS) to begin the Department's resolution process concerning the report contents. The staff from OMHSAS may be in contact with you to follow up on the corrective action actually taken to comply with the report's recommendations.

I would like to express my appreciation for the courtesy and cooperation extended to the DAR staff during the course of the fieldwork.

If you have any questions please contact Mr. Michael J. Kiely, Audit Manager of the Western Field Office, at (412) 565-2187.

Sincerely,

Tina L Long

Tina L. Long, CPA
Director

Enclosure

c: Mr. Blaine J. Smith
Mr. Phillip Mader

Some information has been redacted from this audit report. The redaction is indicated by magic marker highlight. If you want to request an unredacted copy of this audit report, you should submit a written Right to Know Law (RTKL) request to DPW's RTKL Office. The request should identify the audit report and ask for an unredacted copy. The RTKL Office will consider your request and respond in accordance with the RTKL (65 P.S. §§ 67.101 et seq.). The DPW RTKL Office can be contacted by email at: ra-dpwtkl@pa.gov.



DEC 20 2011

Mr. Timothy M. Costa
Executive Deputy Secretary
Department of Public Welfare
Health & Welfare Building, Room 333
Harrisburg, Pennsylvania 17120

Dear Ms. Snyder:

The Bureau of Financial Operations (BFO) has conducted a performance audit of Torrance State Hospital's (TSH) procurement process. The audit was self-initiated.

A draft of this report was reviewed with TSH management and their comments, which are identified as Appendix A, are attached to this report. TSH elected not to have an exit conference.

Executive Summary

ISSUES	SUMMARY
<p>Issue No. 1 – Procurement Procedures at TSH Generally Do Not Comply With the Pennsylvania Procurement Handbook Policies and Procedures.</p>	<ul style="list-style-type: none"> • The initial entry, "Shopping Cart", of the automated SRM purchasing and payment system was required but not made for 51 procurement transactions that we sampled thereby mitigating the effectiveness of the imbedded internal control and budgeting enhancements. • Documentation to support adherence to various procurement policies and procedures was not maintained. • Controls related to procurement threshold limits were circumvented by issuing multiple purchase orders with the same vendors for the same or similar types of goods or services. • Several purchase orders were issued prior to approved purchase requests and, in some instances, after the delivery of goods or services. • Several concerns were identified with the procurement of sludge removal service. • Many payments to vendors via manual Advance Account checks should have been made using the preferred and more cost effective PA Electronic Payment Program (PEPP), Visa or the Commonwealth Utility Card.

HIGHLIGHTS OF RECOMMENDATIONS

TSH must comply with established procurement policies, procedures and guidelines as referenced in the Commonwealth Procurement Code Handbook.

TSH should fully implement and utilize the Supplier Relationship Management (SRM) system.

DPW's Division of Procurement should provide complete and thorough training on the Commonwealth Procurement Code Handbook and use of the SRM system to TSH management and all staff involved in the procurement process.

TSH management should revise internal procurement policies and procedures to comply, support and enforce adherence to the Commonwealth Procurement Code Handbook.

Background

TSH, located in Westmoreland County, is one of six public psychiatric hospital facilities in the state hospital system. The hospital provides inpatient services for individuals with severe and persistent mental illness. TSH serves individuals in three distinct types of service: Civil, Forensic and Sexual Responsibility and Treatment Program (SRTP). According to June census figures TSH provides services to nearly 300 patients.

A significant level of procurement activity is necessary to obtain the various purchased goods and services needed for a facility of this size. For FY 2010/11, more than 5,000 purchase orders were issued.

To provide a standard reference to established policy, procedure and guidelines for the procurement of supplies, services and construction under the authority of the Commonwealth Procurement Code, 62 Pa.C.S. Sections 101 et seq., the Department of General Services (DGS) published the Commonwealth Procurement Code Handbook. The guidelines of the handbook apply to all procurement activity in which an executive or independent agency is a participant, unless otherwise provided for in the handbook or by law.

In order to simplify and standardize the procurement process, DGS incorporated the Supplier Relationship Management (SRM) system, a web-enabled purchasing and payment system. SRM is a fast, efficient and dependable tool for order placement, order approval, confirmation of goods, and supplier invoice entry. When used as intended, the SRM system provides an economic, efficient and effective procurement process that promotes compliance with the Commonwealth Procurement Code Handbook.

Objective, Scope, and Methodology

The objective of our audit was:

- To determine if procurement activity at Torrance State Hospital complies with Commonwealth of Pennsylvania and Department of Public Welfare requirements.

The scope of the audit was limited to those procedures necessary to accomplish that objective. In pursuing our objective, we reviewed documentation of our sample of 57 SRM/SAP, 23 General

Invoice/Advance Account and 28 PNC (VISA) Commonwealth Procurement Card transactions during the period of our audit. We also conducted interviews with various TSH staff involved in the procurement process.

Government auditing standards require that the BFO obtain an understanding of management controls that are relevant to the audit objective described above. The applicable controls were examined to the extent necessary to provide reasonable assurance of compliance with generally accepted accounting principles. Based on our understanding of the controls various deficiencies came to our attention and are addressed in Issue No.1 of this report.

The BFO's fieldwork focused on procurement activity during FY2010/2011. The fieldwork was conducted between June 28 and August 12, 2011. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This report, when presented in its final form, is available for public inspection.

Results of Fieldwork

ISSUE No. 1 – Procurement Procedures at TSH Generally Do Not Comply With the Pennsylvania Procurement Handbook Policies and Procedures.

Our audit found that in the process of procuring goods and services, TSH generally did not comply with the Pennsylvania Procurement Handbook. Procurement practices in use at TSH resulted in increased supply and labor costs through the processing of unnecessary documents; increased cost of goods and services through the failure to obtain competitive quotes and bids and through failure to obtain rebates; greater risk to Commonwealth funds through failure to obtain necessary approvals; and the inability to accurately budget and track procurement because funds were not electronically pre-encumbered and encumbered.

Our audit reviewed a sample of 108 different procurements utilizing three different methods: with SRM Purchase Orders, with a PNC Commonwealth Procurement Card (Visa) and with Advance Account checks. The results of the review are as follows:

SRM Purchase Orders

- Only seven (7) of the fifty-seven (57) SRM Purchase Orders selected for review were initiated via the use of the required SRM "Shopping Cart" requisition procedure as stated in the Pennsylvania Procurement Handbook, (Part II - Procurement of Supplies Procedures and Part III Procurement of Services Procedures). Instead, TSH used an obsolete paper style Agency Purchase Request (APR) Form - STD - 181, to initiate requisitions and obtain local TSH purchase approvals.
- TSH was only able to produce nine (9) of the obsolete APRs for the SRM Purchase Orders selected for our review. Additionally, little, if any other documentation was provided to support these purchase requests or the required approvals. This lack of documentation is not in

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compliance with the Pennsylvania Procurement Handbook which stipulates in Part I, Chapter 52 that Agencies are to maintain all procurement records for a minimum of three (3) years from date of final payment.

- Included in the SRM Purchase Orders selected for review were thirty (30) orders for amounts under the \$5,000 procurement threshold. None of these orders complied with all requirements and procedures as stipulated in the Pennsylvania Procurement Handbook, Part II (materials) and or Part III (services) Chapter 01 (Small No-Bid Procurements). The Pennsylvania Procurement Handbook is very specific as to requirements that agencies must follow and document to ensure the item or service being procured is not already on or could not be added to a DGS contract or is not available through DGS Supplies and Surplus. It also covers stipulated procedures to follow, including various Management Directives, requirements related to Disadvantaged Businesses including Minority Business Enterprises (MBE) and Women Business Enterprises (WBE) opportunities, reviewing the supplier's status on the Contractor Responsibility Program File, contacting the supplier for price quotes and delivery availability, monitoring performance, issues and compliance with purchase requirements and maintaining records of procurement.
- Twelve (12) vendors were issued "open" Purchase Orders in the SRM Procurement System for amounts slightly less than the \$5,000 threshold amount, against which numerous purchases were then applied. When Goods Receipts and/or Invoice Receipts neared or exceeded the issued Purchase Order amount, another "open" Purchase Order for just under the \$5,000 threshold amount was issued. This on-going practice circumvented the required prior approval from the Comptroller's Office as well as the requirement of obtaining three (3) price quotes for all purchases of \$5,000 or greater but less than the \$10,000 threshold. It also circumvented the additional approvals and formal sealed bids required for amounts that would have been greater than the \$10,000 threshold had the procurements followed the stipulated procedures in the Pennsylvania Procurement Handbook.
- Three (3) instances were noted where goods or services available under DGS statewide contracts were purchased from qualified vendors without first issuing a Request For Quote (RFQ) from all qualified vendors that service the TSH area as is required.
- [REDACTED] was issued Purchase Order [REDACTED] on 02/11/2011, however the delivery date of the service on the Purchase Order was specified as 02/05/11 or six (6) days earlier than when the Purchase Order was actually issued. The "Delivery Date" must not be prior to the actual "Issued Date" on a Purchase Order. Proper procurement procedures would inform the Purchasing Agent of the actual required and available delivery date of materials and/or services.
- A standard Purchase Order was issued to [REDACTED] on 02/11/2011 for a patient's February admission which began on 02/02/2011, nine (9) days before the Purchase Order was issued. Either a timely standard purchase order should have been issued before the

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service had started or an Emergency Purchase Order request should have followed the first date of emergency service performed.

- The following concerns were noted when reviewing the procurement of sludge removal from [REDACTED] dated 04/13/2011:
 1. The "Invitation for Bid" (IFB) was published 03/03/2011 however, the "Request to Advertise Solicitation" of the IFB was not prepared until 03/14/2011 – eleven (11) days later;
 2. With the "Request to Advertise Solicitation" starting on 03/14/2011 the "Bid Closing Date" and "Bid Opening Date" were scheduled on 03/18/2011 – only four (4) days later. This is not an adequate or reasonable amount of time for prospective bidders to be informed of the bid, research the bid criteria, evaluate the bid criteria and respond accordingly;
 3. Only the Purchasing Agent signed the "Public Tabulation Sheet" when bids were opened. This did not comply with the Pennsylvania Procurement handbook Part II, chapter 03, Paragraph 7, which requires one or more witnesses to be present when opening sealed bids. (Note: this same concern was also noted for the purchase order issued to [REDACTED] on 10/21/2010)
 4. The Purchase Order effective date was 04/13/2011 but the "Service Due Date" on the Purchase Order is 04/05/2011 – or eight (8) days earlier.
 5. The IFB contract term specifically states; "This contract is anticipated to begin on April 01, 2011 and terminate on April 30, 2011" however, the service was not started until May 10, 2011.
 6. The Purchase Order was issued for a quantity of 170,000 gallons of sludge to be removed at a unit cost of \$0.26 per gallon and a total cost of \$44,200. However, on 07/12/2011 a "Goods Receipt" and an "Invoice Receipt" were both processed for 7,600 gallons and a cost of \$31,066. Further review indicated the actual quantity removed was 119,400 gallons plus a sample taken for \$22.00 for a total cost of \$31,066. The quantity was corrected on 07/28/2011 after the auditor brought this to the attention of TSH and the matching invoice was also removed but no corrected invoice was entered. On 08/03/2011, an invoice was entered for the correct quantity and amount (less the sample cost). However, on 08/04/2011 another Goods Receipt was entered for the total quantity of sludge removed, which resulted in an amount double the actual amount removed. TSH should correct the Goods Receipt quantity again to reflect the proper amounts.

PNC Commonwealth Procurement Card (Visa)

- The vendor for one (1) of the twenty-three (23) Visa payments selected for review was Visa enabled, yet the purchase was not initiated using the SRM "Shopping Cart" as required by the Pennsylvania Procurement Manual.
- TSH does not comply with the Pennsylvania Procurement Handbook Part II (Materials) and or Part III (Services), Chapter 01 (Small No-Bid Procurements) with regard to the Visa used for payments made on purchases under the \$5,000 threshold. The Pennsylvania Procurement Handbook is very specific as to requirements that the agencies must follow and document to ensure the procurement is not already on or could not be added to a DGS contract, or is not available through DGS Supplies and Surplus. It also stipulates procedures to follow, including various Management Directives, reviewing MBE or WBE opportunities, reviewing the supplier's status on the Contractor Responsibility Program File, contacting the supplier for price quotes and delivery availability, monitoring performance, issues and compliance with purchase requirements and maintaining records of procurement.
- Of the Visa transactions reviewed, three (3) were found that appear to have been split onto multiple Purchase Orders in order to circumvent the card limit of \$5,000 per transaction.

Advance Account

- TSH often uses Advance Account checks to both procure and make payment to various vendors without first initiating and processing purchase orders through the SRM procurement system. For the period July 01, 2010 through May 12, 2011 there were over nine hundred (900) Advance account checks issued by TSH. This process defeats the SRM System's capabilities for pre-encumbering funds, encumbering funds and tracking procurement.
- Eighteen (18) of the Advance Account transactions reviewed should have been paid for either by the Visa or via the Pennsylvania Electronic Payment Program (PEPP) as stated in Management Directive 310.30 amended.
- Five (5) of the Advance Account Check transactions reviewed were for utility expenses. Utility expenses should have been paid via a "Commonwealth Utility Card". TSH should request the "Commonwealth Utility Card" in order to make timely payments on all utility expenses.
- Multiple Advance Account checks were found to be written to the same vendor during the course of the FY 2010-11 that, in the aggregate exceeded the \$5,000 threshold, and for which no price quotes or Comptroller's Office approval was obtained as would have been required if procured properly. Our audit also identified one vendor that had been issued Advance Account checks that in the aggregate would have been in excess of the \$10,000 threshold (actual

amount paid to date was \$21,782 in the aggregate at time of our audit) during the fiscal year which circumvented the required approvals and formal sealed competitive bidding process.

- [REDACTED] was paid multiple times for amounts under the \$5,000 threshold via the Advance Account Check method of payment. The [REDACTED] contract, allows for payments under \$5,000 to be made using the Visa. Payments should have been made using this method in order to permit the Commonwealth of Pennsylvania to participate in PNC's rebate program for payments made to this supplier.

The following additional concerns were identified as part of our review:

- The person identified on the SRM procurement system as the Requester and the person identified as the Purchasing Agent were the same person for a significant number of Purchase Order transactions from various departments at TSH. The Purchasing Agent should not be identified as the person making the actual request from the various departments for the service or materials. To assure adequate internal control, the initial procurement request must come from a person with direct knowledge of the needs of the Department responsible for the request. The Purchasing Agent's responsibility is to ensure the procurement is made in a timely and proper manner according to the stated procurement procedures.
- The "Workflow Monitor Report" and the "Invoice Tracking & Return Log Report" which are required to be utilized on a daily basis by the Facility Financial Manager and the Facility Invoice Reconciler (Accountant) for monitoring the timely workflow of procurements in the SRM "Shopping Cart" and reconciling invoice / goods receipt rejections were not being utilized.

Recommendations:

The BFO recommends that TSH:

- Utilize the SRM "Shopping Cart" requisition method, when required to procure goods and services;
- Document all procurement and proof of adherence to procurement procedures and retain such documentation in compliance with prescribed procedures in accordance with the Pennsylvania Procurement Handbook;
- Maintain strict adherence to all prescribed procurement procedures as stipulated in the Pennsylvania Procurement Handbook in compliance with the procurement thresholds and delegations;
- When initiating procurement, gain a complete understanding of all related contracts, Invitation For Bids (IFB) and other contractual information before issuing Purchase Orders in order to

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comply with all contractual matters, such as first issuing Request for Quotes (RFQ) to all qualified vendors;

- When issuing any procurement documents such as an Invitation For Bid (IFB), Request For Quote (RFQ), Purchase Order (PO), etc., make sure particular attention is provided to details of procurement and timing (sequence of events);
- Comply with all requirements as stipulated in the Pennsylvania Procurement Handbook regarding Formal Bids, reasonable time, and documentation of the "Public Tabulation Sheet" with proper signatures and signatures of witnesses when opening any formal sealed bids;
- In accordance with Management Directive 310.23 Amended, utilize the preferred PNC Visa Commonwealth Procurement Card for payment to any vendor for purchases made under the prescribed limits (currently \$5,000) whenever possible;
- In accordance with Management Directive 310.30 Amended, utilize the Automated Clearing House (ACH) payment method under the Pennsylvania Electronic Payment Program for all eligible non-payroll payments over \$5,000 including those payments under \$5,000 which cannot be made via the PNC Visa Commonwealth Procurement Card;
- Request from the Bureau of Financial Operations P-card Coordinator a "Utility Card" to be utilized for payment of all utilities as stipulated in Management Directive 310.23 Amended (Commonwealth Purchasing Card Program);
- Adhere to Segregation of Duties and Internal Control procedures for all procurement matters in order to ensure compliance with required procurement processes while utilizing the Commonwealth of Pennsylvania's Supplier Relationship Management (SRM) system;
- Utilize the prescribed "Workflow Monitor Report" on a daily basis to monitor workflow of procurements and the "Invoice Tracking & Return Log Report" on a daily basis to reconcile Goods Receipts (GR) and Invoice Receipts (IR) that have been rejected, in order to ensure proper payments to vendors;
- Request from the DPW Division of Procurement that a complete and thorough training program be conducted at TSH for all personnel involved in the procurement process. At a minimum, this should include the CEO, COO, Facility Financial Manager, Purchasing Office, Department Heads and all primary staff personnel that request materials and or services. This training should include classroom training as well as individual workstation training to insure all personnel thoroughly understand the procurement function and the importance of their individual roles in complying with the stated procedures and policies of the Commonwealth;

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- Revise internal TSH Procurement Policies to coincide and comply with the Pennsylvania Procurement Handbook and all related Management Directives.

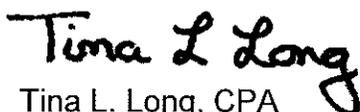
The BFO also recommends that the DPW, Bureau of Financial Operations, Division of Procurement:

- Coordinate with TSH and provide a complete and thorough training program to be conducted at TSH of all personnel involved in the procurement process. At a minimum, this should include the CEO, COO, Facility Financial Manager, Purchasing Office, Department Heads and all primary staff personnel that request materials and or services. This training should include classroom training as well as individual workstation training to insure all personnel thoroughly understand the procurement function and the importance of their individual roles in complying with the stated procedures and policies of the Commonwealth;
- Ensure that those involved in the approval process fully understand the various procurement and contracting methods, the thresholds, delegations and detailed procedures to follow in order to ensure proper and timely procurement of and payment for all materials and services at TSH;
- After having conducted the proper training, they should assist TSH management with revising their internal procurement policies to comply, support and enforce the prescribed Commonwealth of Pennsylvania procurement procedures.

In accordance with our established procedures, an audit response matrix will be provided to OMHSAS. The OMHSAS will be responsible for completing the matrix and forwarding it to the DPW Audit Resolution Section within 60 days. The response to each recommendation should indicate OMHSAS' concurrence or non-concurrence, the corrective action to be taken, the staff from OMHSAS responsible for the corrective action, the expected date that the corrective action will be completed, and any related comments.

Please contact Alex Matolyak, Audit Resolution Section, at (717) 783-7786 if you have any further questions concerning this audit or if we can be of any further assistance in this matter.

Sincerely,



Tina L. Long, CPA
Director

c: Mr. Blaine J. Smith
Mr. Phillip Mader

**TORRANCE STATE HOSPITAL
RESPONSE TO THE DRAFT REPORT**

APPENDIX A

November 14, 2011

Mr. Michael J. Kiely
Department of Public Welfare
Bureau of Financial Operations
Western Field Office
Room 320, 11 Stanwix Street
Pittsburg, PA 15222

Dear Mr. Kiely:

Torrance State Hospital has reviewed the draft audit report prepared by the Division of Audit and Review (DAR) covering fiscal year ended June 30, 2011, dated October 26, 2011. The hospital's responses related to the Bureau of Financial Operations (BFO) findings follow. Torrance State Hospital is fully committed to making the changes necessary to comply with the Pennsylvania Procurement Handbook Policies and Procedures to address the audit findings and recommendations.

An exit conference is requested.

Issues unique to Torrance State Hospital that make it difficult to provide the services needed by patients while still adhering to the Pennsylvania Procurement Handbook Policies and Procedures will be identified in the response to seek guidance on how to assure compliance.

Issue No 1. As noted in the Executive Summary, Procurement Procedures at TSH Generally Do Not Comply With the Pennsylvania Procurement Handbook Policies and Procedures.

Issue No 1. is broken down in to three (3) main areas along with two (2) additional concerns. The three main areas are: SRM Purchase Orders, PNC Commonwealth Procurement Card (VISA) and Advancement Account.

SRM Purchase Orders:

Only seven (7) of the fifty-seven (57) SRM Purchase Orders selected for review were initiated via use of the required SRM "Shopping Cart" requisition procedure.

Instead TSH used an obsolete paper style Agency Purchase Request (APR) Form – STD – 181 to initiate requisitions and obtain local TSH purchase approvals.

Response: Shortly after Torrance State Hospital had brief discussion with BFO representatives at the end of the performance audit, DPW Division of Procurement was contacted to request training for staff in the use of SRM when initiating and approving purchases. All hospital staff have been role mapped as necessary to function as Requisitioners, Receivers and Approvers I, II & III.

DPW Procurement provided training on site in the TSH Computer Learning Center (CLC) beginning on September 12, 2011 and ending September 16, 2011. Holding the training in our CLC provided hands on access to SRM. Immediately following the training, Torrance State Hospital implemented hospital wide utilization of SRM with the transition to SRM "Shopping carts" for any purchase requests progressing very successfully. In addition, a Purchasing Agent II was hired and training was scheduled with DPW Procurement Division in Harrisburg from November 14, 2011 to November 18, 2011 to ensure solid orientation to Pennsylvania Procurement Policies and Procedures. Although some difficulties have been encountered working in the system, we are confident they can be resolved.

One identified area for which consultation is requested is the following:

There appear to be purchases that still require the use of an Agency Purchase Request (APR) form STD -181 for local approval. Some examples include purchasing from [REDACTED] Out-service trainings, VISA Purchasing Card and other items.

To ensure ongoing compliance, Torrance State Hospital is working with DPW Procurement Division. Locally, the Chief Financial Officer (CFO) along with the Purchasing Agent I & II, will be doing weekly audits of ten (10) purchases and submitting findings as well as any corrective action taken if needed as part of a monthly report to the Chief Operating Officer for review.

TSH was only able to produce nine (9) of the obsolete APR's for the SRM Purchase Orders selected for our review. Additionally, little if any documents was provided to support these purchase requests or the required approvals.

Response: TSH unfortunately does not have an answer as to the lack of documentation. It is acknowledged as unacceptable practices.

To ensure retention of documents for the required minimum three (3) years, the CFO as part of his monthly report to the Chief Operating Officer (COO) will include information regarding weekly random audits conducted by the CFO or Accountant related to goods and services requisitioning and validation of the retention of required substantiating documentation.

Included in the SRM Purchase order selected for review were thirty (30) orders for amounts under the \$5,000 threshold. None of these orders complied with all the requirements and procedures as stipulated in the Pennsylvania Procurement Handbook, Part II (materials) and or Part III (services) Chapter 01 (Small No-Bid Procurements). The Handbook is very specific as to the requirements that agencies must follow and document to ensure the items or services being procured is not already on or could not be added to a DGS contract or is available through DGS Supplies or Surplus. It also covers stipulated procedures to follow, including various

Management Directives, requirements related to Disadvantaged Business Enterprises including WBE and MBE businesses.

Response: TSH will ensure compliance with the Pennsylvania Procurement Handbook, Part II and Part III by requiring the Purchasing Agent (PA II) to review each procurement document for goods and services and insert a data sheet in the file for each purchase to confirm the Handbook or any Management Directive was followed and the CFO will review, sign and date the data sheet verifying review.

Another identified area for which consultation is requested is the following:

The majority of the thirty (30) purchase orders were for medical services for treatment of patients. The selection of those vendors was based on: the availability of best value, proximity to our facility, the medical specialty of the service, being the only medical facility available at the time of need and the provider's willingness to accept Medical Assistance or Medicare reimbursement rates.

Twelve (12) vendors were issued "open" Purchase orders in the SRM Procurement System for amounts slightly less than the \$5,000 threshold amount, against which numerous purchases were applied. When Goods Receipts and/or Invoice Receipts neared or exceeded the issued Purchase Order amount, another "open" Purchases Order for just under the \$5,000 threshold amount was issued. This on-going practice circumvented the required prior approval from the Comptroller's office as well as obtaining three (3) price quotes for all purchases of \$5,000 or greater but less than the \$10,000 threshold. It also circumvented the additional approvals and formal sealed bids required for amounts that would have been greater than the \$10,000 threshold had the procurement followed the stipulated procedure in the Handbook.

Response: TSH is working with DPW Procurement to put into place long term contracts for services that typically exceed the amounts stipulated in the handbook. The TSH PA II, under the supervision of the CFO, will ensure all services that exceed the thresholds will be obtained through continued work with the DPW Procurement Division to bid and award contracts according to the Pennsylvania Procurement Handbook to avoid any

misconception of circumventing the system as that is not TSH's intent. In addition, discussions regarding the audit findings have occurred at Executive Clinical meetings and at departmental business meetings as well as e-mail to educate all staff about the requirements.

Three (3) instances were noted where goods or services available under DGS statewide contracts were purchased from qualified vendors without first issuing a Request for Quote (RFQ) from all qualified vendors that service the TSH as is required.

Response: The PA II or PA I will ensure that the minimum number of vendors that service the TSH area will be sent an RFQ. The RFQ's whether returned or not will be initialed and dated by the PA II or CFO and included in the procurement file for that service. The CFO will perform random checks monthly of the procurement of services to ensure compliance and include it in his COO monthly accomplishment report.

[REDACTED] was issued Purchase Order [REDACTED] on 02/11/2011 however the delivery date of the services on the P.O. was specified as of 02/05/2011 or six (6) days earlier than when the P.O. was actually issued. The "Delivery Date" must not be prior to the actual "issued date" on the P.O.

Response: This particular circumstance was a patient from the [REDACTED] who was taken to the Emergency Room at [REDACTED] on a Saturday for needed services. TSH Purchasing Department does not work on Saturdays and would not have been aware of the need for local hospital services until the following Monday.

TSH would appreciate some advice on how this situation could be handled to ensure compliance while making sure a payment method is available for the needed services. TSH has a Sole Source Contract with [REDACTED] for Emergency and Out-Patient Medical Services. TSH RFPC Director will ensure a more timely communication with the TSH Purchasing Department regarding services. TSH Purchasing department will ensure timely submittal of the purchase request.

A standard Purchase Order was issued to [REDACTED] on 02/11/2011 for a patient's February admission which began on 02/02/2011, nine (9) days before the Purchase Order was issued. Either a timely standard purchase order should have been issued before the service had started or an Emergency Purchase Order request should have followed the first date of emergency services performed.

Response: An Emergency Purchase Order request should have followed the first date of emergency service. It is not clear if this patient was admitted to the hospital or simply received out-patient or emergency care. In the event of the latter, standard purchase order

could have been issued against the Sole Source Contract. As noted previously, TSH will improve its communication between departments in order to ensure the correct document is issued for the circumstance in a timely manner.

Advice would be appreciated on how to address the fact that in this geographical area a patient may be admitted to one of a minimum of nine (9) hospitals depending on the medical attention needed.

The following concerns were noted when reviewing the procurement of sludge removal from [REDACTED] dated 04/13/2011.

(There were six (6) separate points made for this concern).

Response: TSH is currently working with DPW Procurement preparing a contract for bid for sludge removal. All six (6) points of concern have/are being addressed in the new contract. TSH has corrected the Goods Receipt quantity to reflect the proper amounts.

PNC Commonwealth Procurement Card (VISA):

The Vendor for one (1) of the twenty-three (23) Visa payments selected for review was Visa enabled, yet the purchase was not initiated using the SRM "Shopping Cart" as required by the Pennsylvania Procurement Manual.

Response: TSH recognizes that according to the DGS Purchasing Card (P-Card) training: P-card Process Flow Chart; the cardholders responsibility only require contract P-Card Enabled cards be entered into SRM. The TSH CFO has distributed the rules pertaining to the use of P-Cards to all cardholders and adherence to requirements will be monitored. All P-Card purchases now require that the card holder present a downloaded copy of the SRM document as proof they have entered the purchase request into SRM before the P-Card will be released to them to make the purchase. In an emergency situation, the paper APR process may be used for local approval.

In addition recently we have learned from DPW Procurement Division of a Role Mapping for SRM for the VISA Card Approver for VISA Enabled purchases. The Role Mapping was granted to the CFO and the COO. Consideration is being given to provide one (1) Purchasing Card to the Maintenance Department as a VISA SRM Enabled card but it still requires the creation of the shopping cart before using the P-Card.

TSH does not comply with the Pennsylvania Procurement Handbook Part II (Material) and or Part III (Services), Chapter 01 (Small No-Bid Procurement with regard to Visa used for payments made on purchases under the \$5,000 threshold. The Pennsylvania Procurement Handbook is very specific as to requirements that the agencies must follow and document to ensure the procurement is not already on or could not be added to a DGS contract, or it is not available through DGS Supplies and Surplus. It also stipulates procedures to follow, including various Management Directives, reviewing MBE or WBE opportunities, reviewing the

supplier's status on the Contractor Responsibilities Program File, contacting the supplier for price quotes and delivery availability, monitoring performance, issues and compliance with purchase requirements and maintaining records of procurement.

Response: TSH recognizes this identified problem. Guidance will be sought from the DPW Procurement Division on how to proceed because of the conflicting information contained in:

1. The DGS, Bureau of Procurement created and issued a Purchasing card (P-card) training in June 2011. The information given in the training conflicts with the finding during the audit. TSH would like to review this during our exit conference.
2. The DPW, Office of Administration, Division of Procurement issued on February 2, 2009 a VISA Purchasing Card Manual, the information in this manual also conflicts with the audit finding. TSH would appreciate discussing this during our exit conference as well to ensure we have a clear understanding of the regulation and guidance so we can comply.

Some additional clarification would be appreciated on language in the DPW Guide to Making a VISA Purchase.

Of the Visa transactions reviewed, three were found that appear to have been split onto multiple Purchase Orders in order to circumvent the card limit of \$5,000 per transaction.

Response: it is not TSH's intent to circumvent the card limit of \$5,000 per transaction or circumvent the proper procedures in any way.

TSH will review the circumstances surrounding this finding and consult with DPW Procurement Division to ensure we are in compliance with any future purchases.

TSH CFO will take the lead in identifying the circumstances and the CFO, the COO and the PAII will discuss with DPW Procurement Division to obtain guidance on how to make these type of purchases.

Advancement Account:

TSH often uses Advance Account checks to both procure and make payments to various vendors without initiating and processing purchase orders through the SRM procurement system. For the period July 01, 2010 through may 12, 2011 there were over nine hundred (900) Advance account checks issued by TSH. This process defeats the SRM System's capabilities for per-encumbering funds, encumbering funds and tracking procurement.

Eighteen (18) of the Advancement Account transactions reviewed should have paid for either with VISA or via the Pennsylvania Electronic Payment (PEPP) as stated in Management Directive 310.30

Five (5) of the Advancement Account Check transactions reviewed were for utility expenses. Utility expenses should have been paid via a "Commonwealth Utility

Card. TSH should request the "Commonwealth Utility Card" in order to make timely payments on all utilities.

Response: TSH's expanded use of the VISA Purchasing Card to pay for purchases/services previously paid for with Advancement Account checks will greatly reduce this issue.

Again the TSH PA I, PA II under the supervision of the CFO will ensure all VISA Purchasing Card (P-card) payment begin the use of the SRM system to ensure the ability to track all purchases.

As previously mentioned there are some unique situations at TSH which must be identified. The Water Supply Company will not accept credit card payment resulting in the hospital needing to pay with the Advancement Account.

The Electric Suppliers invoices go directly to the Comptrollers for payment.

The only other utility used at TSH is Natural Gas. The TSH Accountant contacted the Natural Gas provider to discuss payment methods and was informed that there would be a charge of \$7.95 per month which is more costly than any rebate we would receive for using the utility card.

TSH referenced Management Directive 310.23 Amended Commonwealth Purchasing Card Program, 5. Policy, d. which contains a note* Since utility companies may charge a fee for credit card payments, the agency should consider the fee expense versus the potential rebate and the administrative efficiencies gained from using the utility purchasing card prior to using the card for utility payments.

Multiple Advancement Account checks were found to be written to the same vendor during the course of the FY 2010-11 that, in the aggregate exceeded the \$5,000 threshold, and for which no price quotes or Comptroller's office approval was obtained as would have been required if procured properly. Our Audit also identified one vendor that had been issued Advancement Account checks that in the aggregate would have been in excess of the \$10,000 threshold during the fiscal year which circumvented the required approvals and formal sealed competitive bidding process.

Response: These purchases are from [REDACTED] TSH purchases a unique bag of small candies and chips that are used in patient snack, patient awards program, and overtime meals for staff. TSH has not been able to procure these unique items from any state wide contract. [REDACTED] is a small business owner and not interested in contracting because the delayed payments would make it difficult to remain in business.

The [REDACTED] has recently agreed to accept payment via credit card. TSH will make this payment using the Visa Purchasing Card (P-Card).

It is not TSH intent to circumvent any established policy or procedure.

[REDACTED] was paid multiple times for amounts under the \$5,000 threshold via the Advancement Account Check method of payment. The [REDACTED] contract allows for payments under \$5,000 to be made using the VISA.

Payments should have been made using this method in order to permit the Commonwealth of Pennsylvania to participate in PNC's rebate program for payment made to this supplier.

Response: [REDACTED] recently agreed to accept payment via the Visa Purchasing Card (P-Card). All future payments for this service will use that method of payment.

The following additional concerns were identified as part of our review

The person identified on the SRM procurement system as the Requester and the person identified as the Purchasing Agent were the same person for a significant number of Purchase Orders transactions from various departments at TSH. The Purchasing Agent should not be identified as the person making the actual request from the various departments for the services or materials. To assure adequate Internal Control, the initial procurement request must come from a person with direct knowledge of the needs of the department responsible for the request.

Response: TSH has reviewed and updated the Role Mapping for all levels in the procurement process for all departments represented in the hospital. All levels have attended training in the correct use of SRM. This update will ensure this issue is resolved and will ensure segregation of duties.

The "Workflow Monitor Report" and the "Invoice Tracking & Return Log Report" which are required to be utilized on a daily basis by the Facility Financial Manager and the facility Invoice Reconciler (Accountant) for monitoring the timely workflow

of the procurement in the SRM "Shopping Cart" and reconciling invoices/goods receipt rejections were not being utilized.

Response: Both the TSH Accountant and the CFO have access to the Workflow Monitor Report and the Invoice Tracking & Return Log Report and will use both to monitor the procurement process and to ensure proper payment to vendors.

Recommendations: TSH has reviewed the recommendations made and have incorporated them into this response.

Some additional comments about the recommendations include the following:

1. The CFO of TSH will be the responsible official to ensure the Purchasing Department is in compliance with any and all regulations, manuals and Management Directives pertaining to procurement of goods and services and ensure TSH follows the Pennsylvania Procurement Handbook
2. TSH will continue to work with and obtain guidance from the DPW Procurement Division.
3. TSH CFO will review and revise all internal hospital procurement policies to comply, support and enforce the prescribed Commonwealth of Pennsylvania procurement procedures.
4. The PAII and CFO will ensure there are at least one additional witness to all bid openings.

Sincerely,

Robert B. Snyder
COO TSH